

PORTFOLIO COMMENTARY

Short Duration Bond

Market Environment

- The Bloomberg Barclays 1-3 Year U.S. Government/Credit Index returned 1.17% for the quarter. Positive returns in fixed income were largely driven by strong performance across credit markets as corporate bond spreads rallied sharply from March wides.
- The Federal Reserve's (Fed) aggressive support of financial markets and corporations contributed to a rapid improvement in market conditions. Improved liquidity in the Treasury market and an opening of capital markets for corporations resulted in a record \$715 billion of debt issued by investment-grade companies.
- The Fed's commitment to buy high-yield exchange-traded funds (ETFs) – as well as securities recently downgraded from investment grade – supported the sub-investment grade market.
- In addition to monetary and fiscal stimulus measures, initial progress to contain COVID-19 and signs of a bottoming in the U.S. economy as states began to reopen further boosted market sentiment, but the yield on the 2-year U.S. Treasury nevertheless rallied to 0.16% from 0.23% at the end of March.

Performance Summary

The Janus Henderson Short-Term Bond Portfolio outperformed its benchmark, the Bloomberg Barclays 1-3 Year U.S. Government/Credit Index, for the quarter ended June 30, 2020. Allocation decisions, including our overweight in investment-grade corporate bonds, out-of-index exposure to high yield, and exposure to structured securities such as collateralized mortgage obligations, added to returns amid the strong performance in credit markets.



For detailed performance information, please contact a Janus Henderson Institutional team representative.

Portfolio Discussion

Many fixed income investors looking to reduce their exposure during the height of the COVID-19 crisis focused sales in shorter-term bonds because these securities tend to be more liquid. This caused shorter-term bonds to perform poorly on a risk-adjusted basis (and, in our view, more poorly than justified by their underlying fundamentals) in the first quarter, and spread curves flattened or inverted. However, this dislocation created, in our view, an abundance of attractive relative-value opportunities at the shorter end of the bond markets.

As the Fed's level of commitment to supporting credit markets solidified, liquidity improved and the credit curve steepened. With these developments, in conjunction with the reopening of economies and positive developments in COVID-19 treatments, we sought to prepare the Portfolio for the slow recovery in fundamentals we expect will ensue.

Operating largely at the sector and security level, we reduced allocations to some of our more defensive names in the health care, pharmaceuticals and defense industries and added to technology and certain consumer cyclical names. We maintained our duration overweight given its ability to act as a hedge against our increasing credit market exposure.

The Portfolio was well positioned for the second quarter rally, with our credit overweight (both corporate credit and securitized) and Treasury underweight driving relative outperformance. Security selection was also beneficial, particularly in technology and midstream energy. In technology, a position in semiconductor manufacturer Broadcom performed well, aided by the company's commitment to repair its balance sheet and pay down debt. In midstream energy, an overweight position in oil and gas pipeline owner Kinder Morgan was a

notable outperformer as the energy industry as a whole recovered amid rising oil prices. Exposure to securitized credit, including asset-backed and mortgage-backed securities, further added to returns.

No asset class or credit sector materially detracted from relative results. At the issuer level, asset-backed security (ABS) Dine Brands Global weighed on returns. Some of the company's franchises in Applebee's Neighborhood Grill & Bar and International House of Pancakes remained stressed as a result of the economic shutdowns. Likewise, our holdings in certain subprime auto ABS detracted as consumers were highly impacted by the sudden economic shutdown. Nevertheless, we continue to believe that these securities should recover as both monetary and fiscal stimulus work their way through the economy.

Top Contributors	Representative Account	
	Average Weight (%)	Relative Contribution (%)
U.S. Treasury N/B	10.13	0.55
WPX Energy	0.37	0.20
GLP Capital Partners	1.51	0.20
Kinder Morgan Inc	0.78	0.14
Broadcom Inc	1.57	0.12

Top Detractors	Representative Account	
	Average Weight (%)	Relative Contribution (%)
DIN 2019-1A A2I	0.57	-0.08
HFLF 2018-1 E	0.77	-0.03
United Airlines Holdings	0.16	-0.01
Synchrony Financial	0.47	-0.01
AT&T Inc	13.37	-0.01

The holdings identified in this table, in compliance with Janus Henderson policy, do not represent all of the securities purchased, held or sold during the period. To obtain a list showing every holding as a percentage of the portfolio at the end of the most recently available disclosure period contact a Janus Henderson institutional team representative. Relative contribution reflects how the portfolio's holdings impacted return relative to the benchmark. Cash and securities not held in the portfolio are not shown.

Manager Outlook

We believe the continued support from both the Fed and fiscal authorities will benefit consumers, corporations and market conditions. With this support, we expect the U.S. economy to bounce back substantially from lockdown levels over the next few quarters but know it will take years before the economy fully recovers. The restoration of liquidity in the credit markets, including high yield, has been quicker than usual given the Fed's historic interventions, but liquidity too will take time to fully normalize.

While there has been a rapid deterioration in corporate fundamentals, we believe we are entering a new phase of the credit cycle where balance sheet repair will be a top priority for management teams and ultimately lead to lower credit risk premiums. We expect corporate bonds and structured securities, including asset-backed securities and commercial mortgage-backed securities, to remain in demand, driven by the additional yield available over very low policy rates – which will likely persist for the foreseeable future – and thus more attractive hedging costs for non-U.S. investors.

For now, we favor investment-grade over high-yield companies but remain focused on valuations and diligent in identifying attractive risk-adjusted opportunities across the ratings spectrum. Similarly, we are seeking higher-quality securitized structures that in our view can withstand a slower economy. The Fed's aggressive actions should also support the liquidity and underlying fundamental performance of these securities. Across fixed income sectors, we continue to favor securities we believe can withstand the elevated economic uncertainty.

Although market sentiment has improved markedly, valuations ended the second quarter closer to longer-term averages and thus still have room to tighten before reaching pre-COVID-19 levels. In our view, this creates an opportunity for attractive returns in fixed income in the year ahead. But we do not expect volatility to fade. COVID-19 and its economic impact remain the most pressing concern, and other risks to market sentiment are also on our radar: a resumption of trade tensions with China and the upcoming U.S. congressional and presidential elections to name two. As we navigate these uncertainties, we will continue to adhere to our bottom-up, research-driven investment process with a focus on taking the right amount of risk throughout the cycle.

Portfolio Management



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For more information, please visit janushenderson.com.

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INVESTORS

Past performance is no guarantee of future results.

Discussion is based on performance gross of fees.

Information relating to portfolio holdings is based on the representative account in the composite and may vary for other accounts in the strategy due to asset size, client guidelines and other factors. The representative account is believed to most closely reflect the current portfolio management style.

As of 6/30/20 the top ten portfolio holdings of the Representative Account are: United States Treasury Note/Bond (4.26%), United States Treasury Note/Bond (3.50%), United States Treasury Note/Bond (1.85%), JPMorgan Chase & Co (1.76%), United States Treasury Note/Bond (1.41%), Charter Communications Operating LLC (1.35%), Vulcan Materials Co (1.33%), Taco Bell Funding LLC (1.29%), Bank of America Corp (1.29%) and Broadcom Inc (1.23%). There are no assurances that any portfolio currently holds these securities or other securities mentioned.

Portfolio holdings are as of the date indicated, and are subject to change. This material should not be construed as recommendation to buy or sell any security.

The opinions are as of 6/30/20 and are subject to change without notice. Janus Henderson may have a business relationship with certain entities discussed. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes.

For fixed income portfolios, relative contribution compares the excess return of an issuer in the portfolio to the excess return of that issuer in the benchmark and the excess return

of that issuer in the benchmark to the benchmark overall, factoring in any difference in weight. Excess return is calculated by comparing the performance of a security to a hypothetical duration-matched security with no credit risk, and rolling up securities by issuer. Relative contribution is based on comparing daily returns, gross of advisory fees, may exclude certain derivatives and will differ from actual performance.

Investing involves risk, including the possible loss of principal and fluctuation of value.

Short Duration Bond Composite, benchmarked to the Bloomberg Barclays US 1-3 Yr Government/Credit Index, includes portfolios that seek as high a level of current income as is consistent with preservation of capital. The portfolios will maintain an average-weighted effective maturity of three years or less under normal circumstances and may invest in high yield/high risk bonds up to 35%. Effective January 1, 2005 the composite definition was changed to include only proprietary mutual funds and exclude sub-advised pooled funds. Effective January 1, 2009 the composite definition was expanded to also include sub-advised pooled funds and separately managed institutional accounts. The composite was created in January 2003.

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